

TCG

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September 30, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

BY HAND DELIVERY

William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

Re: Ex Parte Presentation - CC Docket No. 96-45

Dear Mr. Caton:

Gail Schwartz and Paul Cain of Teleport Communications Group Inc. ("TCG") met with Irene Flannery and Mark Nadel of the Common Carrier Bureau on September 20, 1996, to discuss TCG's position in the above referenced proceeding. At that meeting, they provided the attached document.

Sincerely,

Gail G. Schwartz
Gail Schwartz

Attachment

cc: Irene Flannery
Mark Nadel

Universal Service for Tele-Education

The Telecommunications Act requires that discounts be provided to schools and libraries for access to voice, data and video services at "affordable rates." To ensure that Universal Service for Tele-Education serves the overall objectives of the Act, the Joint Board and the FCC should encourage competitive suppliers, who will offer special rates for schools and libraries. Any so-called "E-rate" (education rate) that is subsidized by means of a Universal Service Fund for Tele-Education should be adjusted to affordability in each community. This will minimize the carrier "tax" on services to non-education customers that will cross-subsidize the special rates to schools and libraries.

COMPETITIVE PROCUREMENT

Schools and libraries must choose a provider by competitive procurement if they want any "E-rate" (i.e. service discount).

The exact type of digital access technology will be determined by the school or library. Capacity should be in fixed proportion to the number of users in the school or library, so that appropriate capacity is acquired.

One-time installation of access "pipes" (wire or wireless) should be offered at no charge if a provider wishes to bid. This constitutes the legislatively required "discount" for all educational customers.

A carrier's recurring service charge must not be greater than the lowest price offered a commercial customer for comparable service. Price may not be lower than the carrier's LRIC. Carriers must certify to this.

The school or library may design any procurement, but a carrier need only bid on telecommunications services. A carrier bid may include joint ventures with any other non-carrier entity, including equipment providers, software providers, applications providers, and training providers, as well as inside wire. If the procurement specifies such auxiliary services, other non-carrier entities may bid for them.

Schools and libraries in any community may pool their procurement. The Commission and the states should encourage (but not require) schools and libraries, especially those in low affordability zones, to make a single community procurement.

In the event that no carrier bids, the ILEC must serve the requesting school or library. In this case, the ILEC will be reimbursed from the universal service fund for the cost of installation of the basic access and for the difference between the rate offered the school or library and the rate offered its most preferred commercial customer for comparable services, in accordance with affordability zone discounts required (see below).

The winning bidder enters into a contract with the school or library for the duration requested by the school or library, not to exceed [five] years.

Within six months of notification by a certificated non-ILEC carrier that it wishes to serve a school/library that has previously not obtained competitive bids, the school/library must open a competitive procurement, if it wants an E-rate.

Schools and libraries obtaining universal service rates may not act as resellers to other customers unless their carrier agrees.

AFFORDABILITY AND DISCOUNTS

The FCC, using commonly available public data, establishes "affordability zones." In the highest zone— where income allows a school or library to fund its own services—the competitive bidding will set the discount. The rate offered must not be greater than the commercial rate for comparable services for the bidding carrier's most preferred commercial customer.

For each of the other zones, the FCC requires discounts, in accordance with the degree of affordability, of up to 100% (off the rate offered the most preferred commercial customer for comparable service).

The difference between the commercial price and the discount E-rate will be reimbursed to the providing carrier from the universal service fund.

Once the affordability zones and associated discounts have been established, the total cost of universal service to schools and libraries can be estimated. A fund is established based on this estimate. The fund should initially be limited to an amount that reasonably can be contracted for and disbursed in a year (e.g. \$1 Billion).

A cap on the fund in the third year should continue until the Joint Board and the FCC have reviewed the impact of the E-rate and the need for further or reduced funding.

FUNDING MECHANISM

Establish one, separate, national universal service fund for schools and libraries (not the same fund as the high-cost fund for individual consumers). States may not create additional demands on carriers for state universal service funds for schools and libraries.

Select a neutral third party administrator by competitive bid. (No affiliate of any LEC or IXC organization is eligible to bid.)

Disburse subsidy funds:

Option A (preferred) : to carriers on behalf of schools and libraries that contract for the carriers' service.

Option B: to schools and libraries directly.

SOURCE OF FUNDS

Option A: All carriers contribute to the fund based on their gross interstate and intrastate revenues minus payments to other carriers. Carriers may -- but need not -- recover contribution from their non-residential customers.

Option B: All carriers' customers pay a surcharge of a uniform percentage imposed on all services, which is collected by carriers and remitted to the fund.

MAXIMIZING VALUE TO SCHOOL OR LIBRARY

To maximize the value of the subsidies to the clients of schools or libraries, *bona fide* requests required under the Act in order for a school or library to get special rates must contain information on the uses to be supported by the capacity required.

The school or library must also indicate the level of effort the school or library will make to facilitate meaningful and widespread use of the telecommunications system.